



Sand Hill Energy Center



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# City of Austin, Texas Austin Energy

**Mission:** *Deliver clean, affordable, reliable energy and excellent customer service.*

*Electric Utility Commission  
Update on FY2011 Proposed Budget  
June 21, 2010*



# FY 2011 Budget Calendar

- November-January Departmental Business Planning
- February-March Develop Horizon Issues & Forecast
- April 21 Economic Outlook, General Fund Forecast and Horizon Issues
- April 28 Enterprise Fund's Forecast
- March - June AE Budget Development
- May 17 Electric Utility Commission (EUC) Meeting for Budget Input
- June 7 Departments submit proposed budgets to City Budget Office
- June 15 Public Forum on FY2011 Budget [www.cityofaustin.org/citymgr/budget\\_input.htm](http://www.cityofaustin.org/citymgr/budget_input.htm)
- June 21 and July 19 EUC Agenda Items
  - Budget update with continued input from EUC and community
- July 28 City Manager presents Proposed Budget to City Council
- August 4, 18 and 25 Budget Work Sessions
- August 5, 19 and 26 Budget Public Hearings at Council Meetings
- August 16 Present Proposed Budget to Electric Utility Commission
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## Forecast Overview

- Forecast shows a funding gap in each year
- Correct structural imbalance to ensure long-term financial sustainability
  - Combination of revenue increases and cost reductions
  - Action plans underway for financial review and base rate increase in FY2013
- Base rate increase required by FY 2013, no amount currently projected
- FY 2011 proposed budget development
  - \$83 million shortfall in FY 2011
  - Maintain existing services and reliability
  - “Hold the line” on cost, although some increases will be required
  - Interim revenue relief in FY 2011 from Transmission Rider that begins recovery of rising transmission costs
- Balance budget needs against Austin Energy’s mission of clean, affordable and reliable energy with excellent customer service





## Budget Development – Upfront Decisions

- Emphasize need to close forecast gap
- No use of Strategic Reserve for balancing
- Primary focus on controllable forecast factors
- Allow and encourage repurposing or reallocation between functions
- No new Full Time Equivalents or employees
- Evaluate vacant positions and repurpose to fill new needs
- Evaluate forecast generation plan related capital improvement projects
- Focus on capital improvement project funding sources in reductions
- Work first on capital improvements program (CIP), then concurrently on CIP and operating budget (O&M) allowing trade-offs between CIP and O&M





# Budget Development – Capital improvements

- Generation plan – evaluate short-term impact on affordability and develop/evaluate alternative scenario
- Non-generation projects
  - Deferral of non-critical projects
  - Re-evaluate projects driven by economy
- Focus on project's funding sources in considering reductions
  - Cash funding for short-term savings in Transfers to Electric CIP
  - Debt funding for long-term savings in debt service





# Capital Improvement Program

2011-2015 Proposed totals \$937.2 million, with \$570.3 million debt funded

- Generation Plan - PPAs plus \$166.6 million Sand Hill Energy Center (200 MW)
- \$25.4 million for Emerging Transportation Technologies (PHEV) in later years
- \$13.8 million for Support Services, Facilities & Technology includes billing system replacement and System Control Center in 2011
- (\$32.9 million) reduction in electric service delivery projects
- (\$10.5 million) elimination of contingency on Fayette scrubber project
- (\$30.8 million) reduction in district cooling projects due to economic conditions

Austin Energy Capital Improvement Spending Plan Forecast FY 2011-2015 Spending Plan Summary			
Capital Improvement Spending Plan (in \$000s)	Forecast Build Total FY2011-2015	Proposed Total FY2011-2015	Difference Proposed vs. Forecast Build Scenario
Distribution	277,154	270,605	(6,549)
Distribution Substation	70,061	55,827	(14,234)
Transmission	119,547	107,463	(12,084)
Subtotal Electric Service Delivery	466,762	433,895	(32,867)
Power Production	1,058,706	329,329	(729,377)
Customer Service Billing & Metering	27,795	31,337	3,542
Support Services, Facilities & Technology	160,344	142,644	(17,700)
<b>Total</b>	<b>1,713,607</b>	<b>937,205</b>	<b>(776,402)</b>

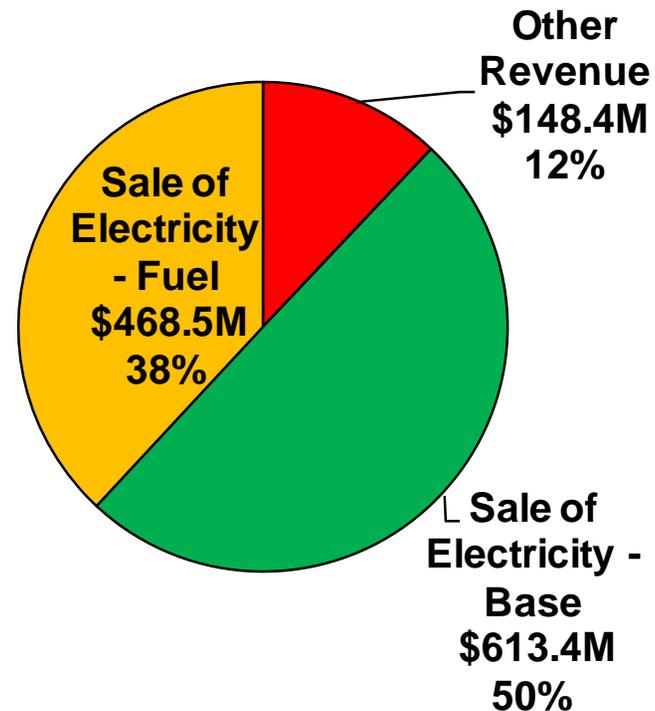




# Sources of Funds

- Base Electric Revenue
- Fuel Revenue
- Other Revenue
  - *Transmission*
  - *Wholesale Sales*
  - *Infrastructure Rental*
  - *District Cooling*
  - *Customer Fees*
  - *Interest Income*

FY 2011 Revenue **\$1,230.3M**





# Revenue - Fuel Charge

- Recovers cost of fuel as pass-through to the customer, no profit added
- Cost-recovery allows annual true-up, but no change since January 1, 2008
- Expecting fuel rate to decrease January 1, 2011 based on estimates
  - Natural gas price decline is primary driver
- Items included in fuel charge
  - Average fuel and purchased power cost
  - Projected generation requirements and combination of plants used
  - Fees from Electric Reliability Council of Texas (ERCOT)
  - Renewable energy and congestion costs
  - Adjustment for previous over- or under-recovery

<b>SECONDARY SERVICE</b>	
Rates provided in cents per kilowatt-hour (kWh) of electricity usage (For Rates: E01, E02, E03, E04, E05, E06, E10, E13, E14, E23, ENW)	
January 1, 2004 - December 31, 2005	2.796 cents /kWh
January 1, 2006 - December 31, 2006	3.634 cents /kWh
January 1, 2007 - May 31, 2007	3.343 cents /kWh
June 1, 2007 - December 31, 2007	3.044 cents /kWh
For electric bills received beginning January 1, 2008	3.653 cents /kWh





## Revenue – Transmission Rider

Austin Energy's FY 2011 transmission expense of \$66 million for Texas grid use is expected to double in 5 years

- Proposed recovery method (no profit) to recover cost increases
- Rider proposed in FY 2010, but withdrawn, resulting in utility absorbing \$5 million in lost revenue
- FY 2011 average monthly residential bill impact of 82 cents increasing to \$5.45 in FY 2015
- Delay in Texas transmission construction schedule and costs kept rider lower than expected
- Adjust annually and based on utility's allocation of Texas transmission costs (4% of grid)

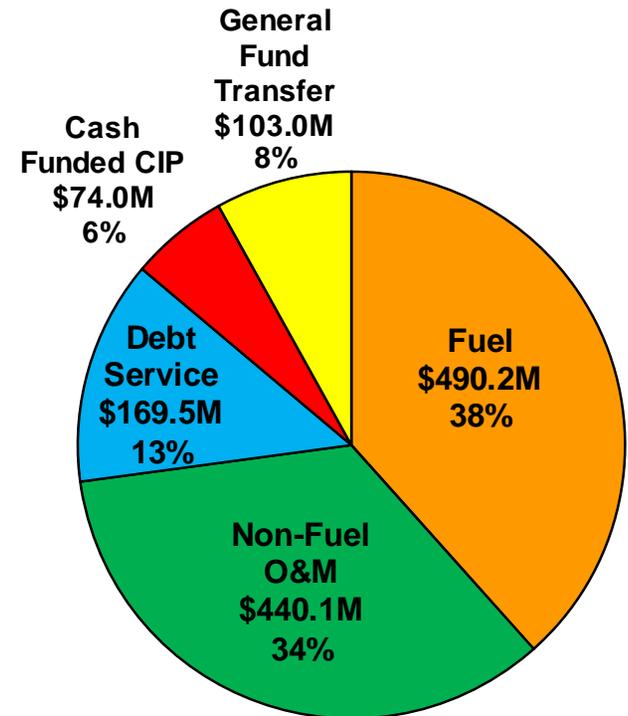




# Uses of Funds

- Operating & Maintenance
  - *Fuel*
  - *Non-fuel*
- Capital Improvements (CIP)
  - *Debt Service*
  - *CIP Cash Funding*
- General Fund Transfer

FY 2011 Requirements **\$1,276.8M**





## Budget Additions

- Added \$7.5 million for personnel city-wide initiatives
  - \$2.9 million for salary adjustments
  - \$1.4 million for Health/Life/Dental Insurance premiums
  - \$2.1 million for additional contributions to Employee's Retirement System
  - \$0.9 million to remove furloughs for non-civil service employees
- \$4.2 million operating cost increase for South Texas Nuclear Plant and Fayette Power Plant
- \$5.9 million for non-fuel and other operating expenses due to increased contractual and commodity requirements
- \$0.5 million increase in property and equipment insurance premiums
- \$1.0 million increase in Bad Debt expense due to economic conditions
- \$16.1 million increase in cash funded electric Capital Improvement Program
- \$0.3 million for Economic Incentives Program
- \$2.0 million increase in General Fund Transfer maintaining current policy





## Budget Reductions

- No new FTEs
- Repurposing 2 FTEs (1 for rate review, 1 for web design)
- \$1.5 million decrease in travel and training
- Eliminated \$500,000 in terminal pay for expected employee retirements
- \$3.2 million decrease in plant boiler/turbine maintenance and maintenance of various other equipment due to scheduling cycle adjustments
- \$1.7 million decrease in Software Maintenance agreements
- Eliminated \$44.0 million for FY2010 one-time transfer to establish Revenue Bond Retirement Reserve





## Budget Update

- Eliminated Legal Services City-wide \$500,000
- 311 Call Center \$8.2 million total budget
  - Serves as disaster recovery and backup call center for utility services
  - \$2.0 million reimbursement from other funds historically
  - Proposed funding based upon first allocating cost of disaster recovery, then cost allocation by service levels
- Economic Growth and Redevelopment Services Office \$9.3 million
- Street Lighting \$6.1 million





## Compare Forecast to Proposed

- Forecast FY2011 \$83.2 million shortfall
- Proposed FY2011 \$46.5 million shortfall
- Closed gap by about \$36.7 million
  - Capital – reductions of \$36.9 million FY2011 and FY2011-2015 \$776.4 million
  - Operating Revenue net reduction of \$3.4 million
    - Increase of \$2.1 million for Chilled Water revenue
  - Operating Requirements net reduction of \$40.1 million from forecast
    - Net reduction of \$12.4 million in non-fuel operating requirements
    - \$7.8 million lower debt service requirements
    - Net reduction of \$21.6 million transfers out, primarily cash funded capital improvements





## Feedback Items

- Energy efficiency rebate programs
  - Current Budget \$16.4 million
  - FY2011 proposed at \$17.2 million may be insufficient to meet demand
- 24 Hour Door Hanger Notification for Disconnect
  - \$500,000 per year savings
  - Current process in place since 1972 includes phone call and door hanger
- Tree Trimming Customer Notification Process
  - \$500,000 - \$1,000,000 per year savings
  - Current process - in place since 2000
    - Increased tree trimming \$2.0 M after 1997 ice storm and customer notification processes in 1998 and 1999, with current process adopted 2000





## Next Steps

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